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August 3, 2005

Mr. Jeff Hatch-Miller  
Chairman  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

W-01045A-05-0578

Subject: Purchase of Cottonwood Water Works

Dear Chairman Hatch-Miller:

As you may recall from our meeting earlier this year, the City of Cottonwood acquired three private water companies in 2004. We are now in the final stages of acquiring the fourth and last privately owned water company serving both our community and the Town of Clarkdale. As indicated in our meeting, the Town of Clarkdale is a party to this acquisition through a series of Intergovernmental Agreements. With this final acquisition we will have consolidated the four companies into municipally operated systems.

As part of this transaction and as was the case with our previous acquisitions, the City is committed to serving all existing customers and honoring all customer deposits and line extension agreements.

With this consolidation we will be serving approximately 9,000 customers with the ability to gain operation efficiencies, increase fire flows, water storage and develop a varied water rights portfolio. Additionally, we are aggressively pursuing the engineering designs necessary to meet the January 2006 deadline for arsenic remediation. These studies and designs are being completed for not only the three previously acquired companies, but for this acquisition as well. The arsenic removal costs are estimated at \$4M.

The City has completed its financial studies, feasibility studies and necessary agreements to complete this transaction. The City has also met with bond rating agencies and the preparation of final financial documents is in process.

The City of Cottonwood is requesting accelerated processing of the ownership transfer approvals from the Arizona Corporation Commission for several important reasons. First, it is absolutely critical this transaction be completed as soon as possible so we can complete the aforementioned arsenic remediation projects prior to the imposed deadlines.

Secondly, the City must secure its financing and obtain the lowest possible rates on our 25 year obligations. These market rates are very favorable to us at the present time but do show signs of an upward trend. Even a small increase in interest rates can have a long term and negative affect on our operational plans.

Finally, we have included an aggressive capital improvement fund in our debt service and with this approval the City can begin service upgrades and inter-ties to the entire system.

Please review the application materials provided and contact us with any questions. Again, any shortening in the processing time of this application will be greatly appreciated by our community.

Thanks you for your consideration.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ruben Jauregui", written in a cursive style.

Ruben Jauregui,  
Mayor

c      Commissioner Marc Spitzer  
         Commissioner William Mundell  
         Commissioner Mike Gleason  
         Commissioner Kristen Mayes